

CITY OF PATEROS
Okanogan County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. Accounting Records Were Falsified

Our audit of the payroll records of the City of Pateros revealed that the city clerk issued extra payroll draws to herself based on unapproved overtime claims. Accounting records were falsified and documents were forged in an attempt to conceal these extra draws.

- a. The city's policy requires that time sheets be completed and signed by the employee, reviewed and approved by the employee's supervisor, and that all overtime be approved by the mayor. During the months under review, all but one of the clerk's time sheets were signed by the employee, however, 24 of the 28 time sheets reviewed were not signed by the employee's supervisor, the mayor. Upon further review of the four that did contain a signature, it was discovered that the clerk had actually signed the mayor's name for him. The clerk was paid \$13,535 in overtime during this period. We are unable to verify if the hours were actually worked.
- b. The city's personnel policy allows employees to take a payroll draw on the 15th of the month if they have worked the full two weeks prior to that date. During the months under review, the clerk took at least nine draws in addition to the authorized monthly draw. We reviewed the payroll warrants for these extra draws and determined that the mayor's name had been signed by the clerk on six of them. The total extra draws during the period June 1995 through June 1996 totaled \$2,450. These draws were reduced from the clerk's net pay at the end of the appropriate month.
- c. The clerk's leave records are inaccurate. The leave claimed by the clerk on her time sheets was not consistently posted to the city's records. The employee stub did not always have the leave accounting area completed. In addition, the employee took leave on three days without recording any leave taken, as follows:
 - The clerk wrote on her time sheet that she took time off without pay on July 3, 1995, however, there was no charge to leave during the month. The clerk was paid \$88 for July 3, 1995.
 - We observed that the clerk was on leave for at least one hour on March 27, 1996, and was absent from work on March 29, 1996. The mayor filled in for the clerk on the 29th. The clerk's time sheet indicated that she worked eight full hours on both days, with no charge to leave. The clerk's pay for these nine hours was \$101.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate, or falsify any record or paper appertaining to the officer's office, or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in a state correctional facility for not more than ten years, or by a fine of not more than five thousand dollars, or by both.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

The following internal control weaknesses allowed the clerk to conceal these irregularities without being detected.

- a. The clerk's time sheets were not approved by her supervisor, the mayor as required by the city's personnel policy.
- b. Overtime claimed by the clerk was not approved by the mayor which is also required by the city's personnel policy.
- c. There was no review of the warrants issued which would have occurred if the mayor had actually signed the warrants himself.

We discussed the apparent forgery of the mayor's signature with the mayor and he told us that he was notified by a bank employee in April 1996 that his signature appeared to be forged. He took immediate action to stop the clerk from further use of his signature, however, he did not notify the State Auditor's Office as required by RCW 43.09.185.

The clerk stated that she signed the mayor's signature for convenience when he was not available. She also stated that she felt entitled to the additional draws based on the overtime worked throughout the months in question.

We recommend the City of Pateros adjust the city clerk's leave records for the time off which was taken. We further recommend the Washington State Office of the Attorney General and the Okanogan County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

We also recommend the City of Pateros implement adequate policies and procedures for the payroll system to ensure that time sheets and overtime contain the appropriate

supervisory approval. In addition, all warrants should be signed by the mayor.

2. The City Should Maintain Complete And Accurate Accounting Records And Monitor Budgets And Cash Balances

Our audit of the City of Pateros revealed the following problems with the city's accounting records:

- a. We found that city funds were allowed to operate with negative cash balances in 1994 and 1995 as follows:

<u>Year</u>	<u>Fund</u>	<u>Deficit Balance</u>
1994:	Construction	\$22,556
	Street	252
	Wastewater Study	3,323
	Sewer	1,036
	Garbage	10,926
1995:	Sewer	\$8,365
	Garbage	9,691
	Wastewater Study	3,323

RCW 43.09.210 states in part:

. . . All services rendered by . . . one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

Since deficit cash balances actually represent unauthorized interfund loans, insolvent funds are benefiting from the financial resources of other solvent funds of the city. City funds with surplus cash cannot invest their cash balances because it is, in effect, being lent without interest to the insolvent funds.

- b. The city's authorized interfund loans are not being managed in accordance with requirements. There have been no interest or principal payments on the following interfund loans as noted.

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance</u>	<u>Last Payment</u>
		e	
1990 GO Bond	Arterial Street	\$ 5,000	1991
Current Expense	Cumulative Reserve	8,491	1989
Streets	Cumulative Reserve	<u>1,279</u>	1993
Total		<u>\$14,770</u>	

The State Auditor's *Budgeting, Accounting, and Reporting System* (BARS) manual, Volume 1, Pt. 3, Ch 4, page 1, states in part:

The term of (an interfund) loan may continue over a period of more than one year, but must be "temporary" in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be questioned as a "permanent diversion" of moneys.

The city's Resolution 88-1 sets forth the general requirements to be followed for all interfund loans, and states in part:

Interest payment on loans will be paid at the end of each month until loan is paid in full.

- c. The city's expenditures exceeded appropriations in the following funds in 1994 and 1995:

<u>Year</u>	<u>Fund</u>	<u>Amount In Excess Of Appropriations</u>
1994	Garbage	\$17,520
	Wastewater Study	15,823
1995	Construction	\$33,877
	Garbage	5,573

Approving claims and issuing warrants in excess of the total amount appropriated for any individual fund is prohibited by RCW 35A.33.125.

- d. Budget reports were not prepared and made available to city council and the mayor at any time during the two year audit period.

RCW 35A.33.140 states:

... not less than quarterly, the clerk shall submit to the city's legislative body and chief administrative officer a report showing the expenditures and liabilities against each separate budget appropriation incurred during the preceding reporting period and like information for the whole of the current fiscal year to the first day of the current reporting period together

with the unexpended balance of each appropriation. The report shall also show the receipts from all sources.

The city's personnel policy states that it is the clerk-treasurer's duty to maintain account spreadsheets and present them to the council monthly.

- e. The clerk did not prepare the 1994 annual report. The city's 1995 annual report was submitted late.

RCW 43.09.230 states:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year."

When we began our audit on March 27, 1996, the clerk was over a year behind in balancing the records and posting to the accounts. The failure to maintain complete and timely accounting records is largely responsible for the problems noted above. These problems have significantly increased the city's audit costs.

In addition, the city council and the mayor have failed to monitor financial management operations. This monitoring operation is necessary to provide assurance that records and accounts are properly maintained. Many of the problems in this finding were brought to the city's attention in the previous four audit reports.

We again recommend that the city clerk maintain timely accounting records, and prepare the required quarterly and annual reports.

We also recommend that the mayor and the city council take an active role in monitoring the financial operations of the city.

3. The City Of Pateros Should Discontinue Utility Services As Required By RCW 35.21.290-300 And Comply With City Ordinance No. 423

During our audit of the City of Pateros, we found that the city is not consistent in discontinuing water services to users whose accounts are delinquent. In addition, the city clerk is not consistently applying the billing and collection provisions of City Ordinance No. 423 and is making adjustments to accounts not authorized by the city council.

The city has several utility accounts which are more than four months past due. City Ordinance No. 423 provides the city superintendent with the authority to shut off water services after the 25th day of the month if the user has not paid for the previous month's service. RCW 35.21.290 limits a city's lien on the property for water services to four months services.

The city's ordinance also states that if water and sewer payments have not been received by the 15th of the month, the user shall be subject to a late charge. The current late charge fee is \$5.00. We found that in some months, the late fee was not assessed on the delinquent accounts until the 20th day of the month. We also found many instances where the city clerk reversed the late charges after they were properly assessed.

In addition, the clerk reduced customer's accounts because she felt an adjustment was appropriate. In some cases, the clerk wrote off the entire unpaid balance when users had moved from the area. The clerk has no authority to make account adjustments, except to correct billing errors.

RCW 35.21.290 states in part:

Cities and towns owning their own water works . . . shall have a lien against the premises to which water . . . services were furnished for four months charges therefor due or to become due, but not for any charges more than four months past due . . . (Emphasis added.)

RCW 35.21.300 further states in part:

(1) The lien for charges for service by a city water works . . . may be enforced only by cutting off the service until the delinquent and unpaid charges are paid

The failure of city officials to cut off water services can result in the loss of substantial utility income.

We recommend that the city officials enforce collection of delinquent water utility accounts by discontinuing services to the property pursuant to the provisions of RCW 35.21.290 and 35.21.300 and provided for in City Ordinance No. 423. We also recommend that the city clerk assess late fees as required by the Ordinance and make no adjustments to valid charges without proper approval from the City Council.